

**2007-2008
MID-YEAR BUDGET REVIEW
Section II**

CAPITAL BUDGET PROGRAMS STATUS REPORT

At mid-year, the City Manager's Budget Office conducts a comprehensive review of each capital budget program. This section of the report summarizes the financial status of each program, including a discussion of the major revenue sources and any major expenditure variances.

The 2007-2008 Adopted Capital Budget totaled \$2.0 billion. Through the first six months of the year, the City Council approved budget adjustments that, in total, decreased the capital budget by \$89.1 million to a total of \$1.91 billion. All of the decrease (\$96.2 million) reflects the impact of technical adjustments that were processed as part of the 2006-2007 Annual Report. These adjustments included a reduction of \$195.9 million to account for changes to fund balance as a result of lower revenue collections, the largest of which were due to bond proceeds that were not issued in 2006-2007 for the Airport; partially offset by expenditure savings, project augmentations and rebudgets. The remainder of approved adjustments to the budget through the first six months of the fiscal year included the addition of a small number of new projects, projects with changes in cost and/or scope, as well as technical adjustments to funding sources.

During the first half of the year, revenues and project expenditures were generally tracking within budget. The continued slowdown in the local real estate market has, however, negatively impacted a number of the development-sensitive revenues. In addition, the continuing rise in construction costs remains a concern for projects scheduled to be awarded through the remainder of the year. As a result, we may continue to see projects that experience funding shortfalls that could require budget adjustments or changes in project scopes.

AIRPORT

Financial Status

The Airport Capital Program is composed of four funds: The Airport Capital Improvement Fund, the Airport Revenue Bond Improvement Fund, the Airport Renewal and Replacement Fund, and the Airport Passenger Facility Charge (PFC) Fund.

Revenues recorded into Airport capital funds include grant income, commercial paper proceeds, PFC's, bond proceeds, interest income, the collection of an additional \$5.00 Customer Facility Charge that went into effect

January 1, 2008 and the transfer of construction laydown revenue. In addition, Airport operating revenues support the funding of the Airport Renewal and Replacement Fund capital projects.

The Airport Capital Improvement Fund is funded by grant revenue. Principally, these are federal grants administered by the Federal Aviation Administration (FAA) under its Airport Improvement Program (AIP). Most grants provide an 80% reimbursement of project costs. The Airport's 20% local share is primarily funded by the Airport PFC Fund or the Airport Renewal and Replacement Fund. Overall, grant income in the Airport Capital

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Improvement Fund appears to be tracking below budgeted levels since grant revenues are typically received on a reimbursement basis; however, the full amount of budgeted revenue is still expected to be received by year-end. Commitments through December in the Airport Capital Improvement Fund totaled \$14.3 million, or approximately 29.4% of the budget for capital projects. Mid-year adjustments recommended in this report for this fund include recognition of an increase in grant income in the amount of \$527,000 to establish a new project, Compressed Natural Gas (CNG) Fueling Station Upgrades; and augmentation of the North Concourse Building (\$27,000) project to ensure sufficient funding to complete this project's outstanding tasks. The net impact of these actions is a decrease to Ending Fund Balance in the amount of \$27,000.

The Airport Revenue Bond Improvement Fund provides funding for major capital projects financed by bond issuances and other debt instruments. Revenues are tracking above anticipated levels through December due to bond proceeds in excess of budgeted amounts. Expenditures are tracking within expected levels through December.

The Airport is currently using bond proceeds, including the 2007 Airport Revenue Bonds issued in September 2007, along with commercial paper to provide funding for projects in this fund. Mid-year adjustments recommended in this report for this fund include

the transfer of funds from the Customer Facility and Transportation Fee Fund to recognize additional revenue from an additional \$5.00 Customer Facility Charge (CFC) levied on each rental car contract effective from January 1, 2008 through June 30, 2008. This revenue provides partial funding for the design and construction of the Consolidated Rental Car Garage. Also recommended in this report is an increase to the budget for Transfers from the Airport Fiscal Agent Fund (525), recognizing additional bond proceeds available at the closing of the 2007 Airport Revenue Bonds.

Commitments through December in the Airport Revenue Bond Improvement Fund totaled \$289.3 million, or approximately 31.6% of the budget for capital projects. There are several mid-year adjustments recommended in this report for this fund, including the establishment of one new project, South Apron Replacement (\$200,000); reallocation of current funding in various appropriations related to the North Concourse Building project, including Master Plan Miscellaneous Precursor projects, Central Plant Expansion, Electrical Distribution System, and Utility Infrastructure projects; and an augmentation to the Airfield Lighting Control and Taxiway V Lighting System project (\$200,000), which is fully offset by a reduction in the West Side Airfield Reconstruction project. The overall realignment of funding for the North Concourse Building project is necessary to ensure funding is available in the proper appropriations to allow uninterrupted completion of outstanding tasks. An additional reallocation from the Terminal Area Improvement, Phase I project to the Public Parking Garage (\$1.7 million) will increase the

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budget for the latter project to \$15 million to fund the 15% design development documents of the public parking structure and the first floor public parking planned in the Consolidated Rental Car Garage. Also recommended in this fund is an increase to the budget for principal and interest payments due to the continuation of the commercial paper program approved by City Council in January 2007. The net impact of these actions is an increase to Ending Fund Balance in the amount of approximately \$35.0 million.

The Airport Renewal and Replacement Fund's revenue primarily comes from operating revenues included in the calculation of the annual rates and charges and funneled to this fund via the Airport Surplus Revenue Fund. Included in this report is a recommendation in this fund to reflect the addition to the budget of Construction Laydown Revenue associated with the lease of Airport West land directly to the Capital Program. This adjustment merely reflects a reallocation of revenues from an Airport operating fund to an Airport capital fund. There is no net adjustment to these revenues.

Although no transfers were made through December, the transfer from the Airport Surplus Revenue Fund is expected to be made prior to the end of the fiscal year. Projects in this fund support capital projects that are not approved for grant, PFC, or bond funding.

Commitments through December in the Airport Renewal and Replacement Fund totaled \$8.3 million, or 44.1% of the budget for capital projects, and are tracking within estimated budget levels. There are several mid-year appropriation adjustments recommended in this report, including the establishment of two new projects, Baggage Handling Maintenance (\$152,000) and Compressed Natural Gas (CNG) Fueling Station Upgrades (\$200,000); the augmentation of the FIS 3rd Floor Lounge Build-Out (\$160,000), Equipment, Operating (\$20,000), and Facilities Maintenance Equipment (\$40,000) projects; and elimination of funding for the International Garbage Sterilizer (\$450,000) project. In addition, current funding in Master Plan Miscellaneous Precursor Projects (\$373,000) would be reallocated to the North Concourse Building project as part of an overall realignment of funding for the North Concourse Project. This will ensure funding is available in the proper appropriations to allow uninterrupted completion of outstanding tasks. These actions result in a net decrease of \$165,000 to Ending Fund Balance.

The Airport PFC Fund includes projects that have been approved by the FAA for funding from PFC's, which is a \$4.50 fee charged to departing passengers. Projects within this fund are determined in consultation with the airlines that utilize the Airport facilities. PFC revenue collections are tracking slightly below estimated levels. Commitments through December in the Airport PFC Fund totaled approximately \$6.7 million or 15.9% of the budget for capital projects. No mid-year adjustments are recommended in this fund.

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CIVIC CENTER

Financial Status

The 2007-2008 budget for this capital program primarily reflects project closeout costs. In addition, funding in this program includes approved city-wide infrastructure projects that were funded from interest earnings in the construction bonds, including technology improvements and the cleanup of Watson Park. The 2007-2008 sources of funding for this program include existing fund balances and commercial paper proceeds. Commercial paper provided interim financing to complete construction of City Hall and the off-site garage. Bonds will be issued to provide permanent funding for the garage later this fiscal year.

On the revenue side, commercial paper issuance in the Civic Center Improvement Fund totaled \$216,000 through December compared to a budget of \$10.9 million. The remaining commercial paper issuance scheduled in this fund, allocated for technology, fixtures, and equipment, will be made as actual expenditures occur later in this fiscal year.

On the expenditure side, appropriations are tracking within expected levels. The projects funded in the remaining allocations include project closeout costs, equipment procurement for the Storage Area Network (SAN) and the Network Operations Center (NOC) at City Hall, cable/fiber connections to public safety facilities, voice and data network enhancements at the Police Administration Building, secondary cooling at the City Hall NOC, and cleanup of Watson Park. Any unspent project

funds are anticipated to be rebudgeted at year-end to fund the completion of these projects.

COMMUNICATIONS

Financial Status

The Communications Capital Program was established to replace and upgrade the public safety and non-public safety radio equipment and is funded from Construction and Conveyance (C&C) Taxes.

As discussed in detail elsewhere in this document, C&C Tax receipts have been declining, due to the slowdown in the local real estate market. The 2007-2008 Adopted Capital Budget estimate for C&C Taxes is \$27 million, of which 3.40% is allocated to the Communications Capital Program. The adopted estimate allows for a 35% drop from the 2006-2007 collection level of \$41.8 million. Through December, Construction and Conveyance Tax receipts total \$13.3 million or 49% of the adopted estimate. At this point, it is anticipated that C&C revenues will meet the adopted level of \$27 million. However, if revenues continue to decline a downward adjustment to the estimate may be necessary later in the year.

Expenditures within this fund are tracking below budgeted levels through December. The Fire Radio Infrastructure System project and the Trunking Radio System Feasibility Study are expected to be completed within this fiscal year. Motorola, the City's Fire Radio vendor, has received the order for the Fire Radio Infrastructure System project, and Fire radio

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COMMUNICATIONS (CONT'D.)

Financial Status (Cont'd.)

sites are being prepped in anticipation of the equipment's arrival.

DEVELOPER ASSISTED PROJECTS

Financial Status

The Developer Assisted Projects Capital program includes the Underground Utility Fund and the Residential Construction Tax Contribution Fund, which are used primarily to receive money from and/or provide payments to developers and utility companies for the construction of street improvements throughout the City and to encourage the undergrounding of existing overhead utilities. The Underground Utility Fund is supported by In-Lieu fees paid by developers. Revenue collections through December of \$342,000 are significantly behind pace for achieving the adopted estimate of \$1,345,000. It is now anticipated that year-end collections will approximate \$900,000, and the revenue estimate is recommended to be adjusted accordingly in this document. The reduction to the revenue estimate is recommended to be offset by a decrease to Ending Fund Balance. Expenditures are tracking below budgeted levels through December.

The Residential Construction Tax Contribution Fund generates its revenue from the Residential Construction Tax. Revenue collections in this category (\$40,000) are also well below

anticipated levels and on pace to fall short of the adopted estimate (\$256,000). No decrease to the budgeted estimate is recommended at this time, but staff will continue to monitor these revenues closely and a downward adjustment, if necessary, may be recommended at year-end. Sufficient fund balance exists to offset any shortfall in this area. Expenditures in all categories are tracking below expected levels.

LIBRARY

Financial Status

The Library Capital Program provides funding to construct new library facilities, renovate existing facilities, acquire materials, install automation equipment to provide information access and electronic processing, and support other miscellaneous facility improvements. The Library Capital Program is funded primarily from Construction and Conveyance (C&C) Taxes, proceeds from the Library Bond Measure, and proceeds from the Library Parcel Tax.

As discussed in detail elsewhere in this document, C&C Tax receipts have been declining, due to the slowdown in the local real estate market. The 2007-2008 Adopted Capital Budget estimate for C&C Taxes is \$27 million, of which 14.22% is allocated to the Library Capital Program. The adopted estimate allows for a 35% drop from the 2006-2007 collection level of \$41.8 million. Through December, Construction and Conveyance Tax receipts total \$13.3 million or 49% of the adopted estimate. At this point, it is anticipated that C&C

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LIBRARY (CONT'D.)

Financial Status (Cont'd.)

revenues will meet the adopted level of \$27 million. However, if revenues continue to decline a downward adjustment to the estimate may be necessary later in the year. Included in this document is a recommendation to reduce the Reserve: New Branch Opening Day Collections allocation and move the funding to an active appropriation (\$4,500,000). This funding will allow new materials to be purchased for the Pearl Avenue, Willow Glen, Santa Teresa, East San José Carnegie, Bascom and Southeast Branches.

On November 7, 2000, City voters approved Measure O, a \$212 million general obligation bond for library improvements. In June 2006, a total of \$60.0 million in bond proceeds were issued to provide sufficient funding for 2006-2007 and 2007-2008 expenditures. To date, a total of \$211.8 million in Library bond proceeds have been issued, which leaves a remaining issuance of \$11.2 million. It is anticipated that the remaining bond proceeds will be issued at the end of the fiscal year to ensure sufficient funding for the remaining Library Bond projects.

Expenditures in the Branch Libraries Bond Projects Fund are generally tracking within estimated levels, however, there are several adjustments recommended in this report. The Santa Teresa Branch project received favorable construction bids, therefore a recommendation

to reduce the project budget by \$2,000,000 is recommended. The Edenvale Branch and Almaden Branch libraries are both complete, therefore, this document includes a recommendation to reduce the Edenvale Branch project budget by \$750,000 and the Almaden Branch project budget by \$200,000. A corresponding increase to the Library Bond Projects Contingency Reserve of \$2,950,000 is also recommended to reflect the savings from these three projects. An increase to the Cambrian Branch project (\$22,000) is recommended to ensure adequate funding is available to complete post construction work and an increase to the Land Acquisition appropriation (\$85,000) is recommended to ensure funding is available in case the City and Evergreen Valley College reach a final agreement to lease land for the Southeast Branch Library. These two recommendations are offset by a recommended \$107,000 reduction to the Branch Libraries Bond Projects Ending Fund Balance.

The Library Parcel Tax Fund revenues and expenditures are tracking within estimated levels through December. No adjustments to this fund are recommended at this time.

PARKING

Financial Status

The Parking Capital Program provides funding to maintain and improve existing parking facilities, upgrade and replace both on-street

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PARKING

Financial Status (Cont'd.)

and off-street parking equipment, and develop parking facilities. The Parking Capital Program is funded from the General Purpose Parking Fund.

Revenues in the General Purpose Parking Fund are primarily generated from fees charged at downtown garages, lots, and parking meters. A portion of those revenues is transferred to the Parking Capital Program to fund capital improvements. Revenues are currently tracking slightly higher than projected estimates primarily due to the Enhanced Parking Security and Cleaning Plan, which charged customers a flat \$5 rate on Thursday, Friday, and Saturday nights after 10 pm through the end of December 2007, and a flat \$2 rate everyday after 6 pm starting January 2008.

Through December, capital project expenditures in the General Purpose Parking Fund are tracking within generally expected ranges. However, there are a number of adjustments being recommended in this report. An increase of \$70,000 is recommended for the Police Parking Garage Security appropriation to fund the enhanced security for the City's parking garages. An increase of \$310,000 is also recommended for the Facility Improvements and Maintenance project to fund the implementation of the Convention Center Deck Repair project. The scope of this project has increased significantly due to additional damage

discovered during construction. The use of Ending Fund Balance is recommended to offset these increases.

Additionally, an increase of \$132,000 to the Revenue Control Upgrades project is also recommended to fund system-wide upgrades to the credit card processing equipment at all parking garages and at the central server to meet the Payment Card Industry Data Security Standard requirements. A corresponding decrease of \$132,000 from the Minor Parking Facility Repairs appropriation is recommended to offset this increase.

**PARKS AND COMMUNITY
FACILITIES DEVELOPMENT**

Financial Status

The Parks and Community Facilities Development Capital Program is a long-term capital investment plan for the acquisition, development, and maintenance of parks, recreational facilities, trails and open space.

The Parks Capital Program is funded primarily through Construction and Conveyance (C&C) Tax revenue and proceeds from the Parks Bond Measure. In addition to these revenues, the Parks Capital program is also supported by grants from the federal and State governments, developer's contributions and fees.

As previously reported in Monthly Financial Reports, Construction and Conveyance

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Financial Status (Cont'd.)

collections have been declining due to the slowdown in the local real estate market. Nearly 98% of the total C&C Taxes are comprised of conveyance receipts, or property transfers, which are the main driver in this revenue category. The number of property transfers for all types of residences in the first half of 2007-2008 has decreased by 44% compared to the first six months of 2006-2007. The average days on market has also steadily grown from a low of 39 days in June 2007 to 60 days in December. The December figure represents a 9% increase from the 55 days houses remained on the market in December 2006.

Fortunately, a significant drop-off in the housing market had been anticipated in the Adopted Budget. The 2007-2008 Adopted Capital Budget estimate for C&C Taxes is \$27 million, of which 65.2% is allocated to the Parks Capital Program. The adopted estimate allows for a 35% drop from the 2006-2007 collection level of \$41.8 million. Through December, Construction and Conveyance Tax receipts total \$13.3 million or 49% of the adopted estimate. This figure represents a 25% decrease from the \$17.6 million collected through December 2006, however, it should be noted that October (52%) and December (44%) have experienced significantly larger declines. In addition to

these revenues, the City has since received January Conveyance Tax receipts totaling \$2.6 million. This amount is 34% lower than the January 2007 amount of \$3.9 million. With this decrease, Construction and Conveyance collections have now experienced decreases in 19 out of the last 21 months when compared to the same months in the prior year. At this point, it is still anticipated that C&C revenues will meet the adopted level of \$27 million but will need to be carefully watched. If revenues continue to decline, a downward adjustment to the estimate may be necessary later in the year. Due to the volatile nature of this tax revenue, staff will continue to monitor receipts closely and make additional recommendations, if necessary, at a later date.

On November 7, 2000, City voters approved Measure P, a \$228 million general obligation bond for park and recreational improvements. In June 2007, a total of \$22.1 million in bond proceeds were issued to provide sufficient funding for 2007-2008 expenditures. To date, a total of \$200.2 million in Parks bond proceeds have been issued, which leaves a remaining issuance of \$27.8 million. It is anticipated that the remaining bond proceeds will be issued at the end of the fiscal year to ensure sufficient funding for the remaining Parks Bond projects.

In the other funds that support the Parks and Community Facilities Development Capital Program, revenues and expenditures are tracking within estimated levels through December.

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Financial Status (Cont'd.)

A revenue estimate increase of \$297,000 and a corresponding increase to the Vietnamese Cultural Heritage Garden project is recommended in the City-Wide C&C Tax Fund section of this document to recognize funding anticipated to be received from the Vietnamese Heritage Society (VHS). This funding will be utilized for Department of Public Works plan review and construction inspection fees associated with the Vietnamese Cultural Heritage Garden project. Also, a \$285,000 revenue increase with a corresponding increase to the Alma Community Center Improvements project is recommended in the Council District 7 C&C Tax Fund section of this document to recognize Proposition 40 grant funding anticipated to be received from the State of California. A \$24,000 revenue decrease is also recommended in the Council District 3 C&C Tax Fund section of this document to reflect grant funding for the Selma Olinder Park. Final payment of \$301,000 was received from the State of California for Proposition 13 grant funding, however, a total of \$425,000 was budgeted. Partially offsetting this decrease in anticipated grant funding was the receipt of a Proposition 12 grant (\$100,000), also for Selma Olinder Park, but the revenue was not previously budgeted. Finally, a recommendation is included in the Council District 9 C&C Tax Fund section of this document to reflect the receipt of Proposition 40

grant funding (\$220,000) from the State of California for Butcher Dog Park.

As previously approved by the City Council, this document includes a recommendation to increase the Happy Hollow Park and Zoo project. The approved Happy Hollow Park and Zoo-Zoo and Attractions award memorandum included a recommendation to use funding which was allocated to the parking lot and bridge phases of the project for the Zoo and Attractions phase. This action was approved with the caveat that the funding would later be replaced with a combination of the City-Wide C&C Tax Fund (\$1,200,000) and the Parks and Recreation Bond Projects Fund (\$2,700,000). In accordance with this direction, therefore, actions recommended in this document, restore the budget for the parking lot and bridge phases of the project.

A number of adjustments are recommended in this document to reflect anticipated expenditure changes. They include: Parks and Community Facilities Development Office (\$300,000) (Parks Central C&C Tax Fund); City-wide Skateboard Park Development (\$64,000) (Parks City-Wide C&C Tax Fund); Columbus Park Horseshoe Court (\$64,000) (Parks City-Wide C&C Tax Fund); Public Works Capital Management Costs (\$42,000) (Lake Cunningham Fund); Family Camp Lease (\$25,000) (Parks City-Wide C&C Tax Fund); Refund Developers (\$25,000) (Council District 3 C&C Tax Fund); Public Works Capital Management Costs (\$8,000) (Park Yards C&C Tax Fund); Canyon Creek Park Perimeter Landscaping (\$9,000) (Council District 8 C&C

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Tax Fund); and Scott and Clifton Park Real Estate Services (\$4,000) (Subdivision Park Trust Fund). The C&C and Lake Cunningham Fund adjustments mentioned above are all funded by the individual fund's Ending Fund Balance. Adjustments in the Subdivision Park Trust Fund are offset by the Reserve: Future PDO/PIFO Projects.

In addition, several actions are recommended in this document to appropriate new funds or to activate existing reserves for new Capital projects. These projects include: Reserve: Calpine Open Space (\$500,000) (Parks City-Wide C&C Tax Fund); Reserve: District 2 Community Center (Parks City-Wide C&C Tax Fund) (\$500,000); Aquatics Master Plan Implementation (\$250,000) (Council District 2 C&C Tax Fund); Flickinger Park Improvements (\$107,000) (Subdivision Park Trust Fund); Pools and Fountains (\$101,000) (Parks Central C&C Tax Fund); and Rosemary Garden Park Improvements (\$50,000) (Subdivision Park Trust Fund).

For more detailed information on all the adjustments made to the Parks Capital Program, please refer to Section III of this document.

PUBLIC SAFETY

Financial Status

The Adopted 2007-2008 Public Safety Capital Program is funded from three sources: proceeds from the Neighborhood Security Act Bond Measure (\$106.1 million); Fire Construction and Conveyance (C & C) Tax Fund (\$10.7 million) and the General Fund (\$9.9 million).

On March 5, 2002, the voters in San José approved Measure O, the "9-1-1, Fire, Police, Paramedic and Neighborhood Security Act", a \$159 million general obligation bond for Police and Fire capital improvements. A total of \$146.7 million of bonds have been issued in prior fiscal years, and the 2007-2008 Adopted Capital Budget includes an additional bond issuance of \$12.3 million. Through December, revenues and expenditures in this program are tracking within estimated levels.

As discussed elsewhere in this document, C&C Tax receipts have been declining, due to the slowdown in the local real estate market. The 2007-2008 Adopted Capital Budget estimate for C&C Taxes is \$27 million, of which 8.40% is allocated to the Fire Department as part of the Public Safety Capital Program. The adopted estimate allows for a 35% drop from the 2006-2007 collection level of \$41.8 million. Through December, Construction and Conveyance Tax receipts total \$13.3 million or 49% of the adopted estimate. At this point, it is anticipated that C&C revenues will meet the adopted level of \$27 million. However, if revenues continue

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PUBLIC SAFETY (CONT'D.)

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to decline a downward adjustment to the estimate may be necessary later in the year.

In the Neighborhood Security Act Bond Fund, the reallocation of \$1,100,000 in the Public Art - Police Bond Projects appropriation to the South San José Police Substation is recommended. As authorized by the City Council on December 18, 2007, this action would replenish the General Fund Future Capital Projects (FF&E) Reserve by reallocating funding in the Neighborhood Security Bond Fund from the Public Art - Police Bond Projects to the South San José Police Substation project. Options to replenish public art at the substation will be discussed in a separate memorandum to be considered as part of the Mid-Year Budget Review.

Expenditures in this program, including General Fund funded apparatus replacements, are tracking within anticipated levels. Major projects, including Fire Station 12 and Fire Station 17, are currently underway. Unexpended funds for these projects will be recommended later in this year to be carried over to 2008-2009 to allow for project completion.

SANITARY SEWER

Financial Status

The Sanitary Sewer System of the City of San José consists of approximately 2,000 miles of sewer mains ranging in diameter from six to 90 inches. The system serves the City as well as three other jurisdictions, and conveys sewage to the San José/Santa Clara Water Pollution Control Plant. The Sanitary Sewer Capital Program has two major funding sources: the Sewer Service and Use Charge Capital Improvement Fund and the Sanitary Sewer Connection Fee Fund. These funds are supported through transfers from the Sewer Service and Use Charge Fund, joint participation revenues, connection fee revenues, interest, and other miscellaneous revenue.

The Sewer Service and Use Charge Capital Improvement Fund is funded through transfers from the Sewer Service and Use Charge Fund and interest earnings. Transfers through December have totaled \$4.83 million, or 33.4% of the budgeted amount (\$14.48 million), and subsequent transfers are expected to occur as planned. Through the first six months, interest earnings and miscellaneous revenues are tracking well above anticipated levels at \$827,000 or 97.8% of the budgeted amount (\$846,000). On the expenditure side, projects are occurring as anticipated and any remaining savings at year-end are expected to be rebudgeted to complete on-going projects.

Joint participation revenues, connection fees, and interest earnings support the Sanitary Sewer

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Connection Fee Fund. Joint participation revenues, usually invoiced and accrued at the end of the fiscal year, reflect cost sharing of actual expenditures incurred during the fiscal year. Corresponding project expenditure savings will offset any potential shortfall in this category. Through December, joint participation revenue collected was \$658,000 or 230% of the budgeted amount (\$286,000). Collections of Sanitary Sewer Connection Fees totaled \$443,000 or 36.5% of the budgeted amount (\$1,215,000) due to lower activity levels. Sufficient fund balance is available to offset any potential shortfall in this area. Staff will continue to monitor these revenues closely and bring forward adjustments at year-end, if necessary. Interest income and miscellaneous revenues total \$216,000 through December, compared to the budgeted amount of \$53,000. The higher than estimated revenues are due to interest being earned on a higher than estimated fund balance. On the expenditure side, expenditures are occurring as anticipated and any remaining savings at year-end are expected to be rebudgeted to complete remaining projects.

An increase to the appropriation for Public Works Capital Management Costs (\$159,000) is recommended in this report. This allocation, which funds the fair share of Public Works Department administrative and management costs necessary to ensure the delivery of capital projects, needs to be increased due to higher

than anticipated project-related expenditures in the fund.

SERVICE YARDS

Financial Status

The Service Yards Capital Program funds the construction and capital improvements for City Service Yards, which house all the support shops that maintain City vehicles, buildings, sanitary sewers, storm drains, streets, and related facilities. The Service Yards Capital Program is supported by the Construction and Conveyance (C&C) Tax Fund.

As discussed in detail elsewhere in this document, C&C Tax receipts have been declining, due to the slowdown in the local real estate market. The 2007-2008 Adopted Capital Budget estimate for C&C taxes is \$27 million, of which 8.78% is allocated to the Service Yards Program. The adopted estimate allows for a 35% drop from the 2006-2007 collection level of \$41.8 million. Through December, Construction and Conveyance Tax receipts total \$13.3 million or 49% of the adopted estimate. At this point, it is anticipated that C&C revenues will meet the adopted level of \$27 million. However, if revenues continue to decline a downward adjustment to the estimate may be necessary later in the year.

Expenditures in the fund are tracking as expected and should end the year within the budgeted allocation.

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STORM SEWER

Financial Status

The purpose of the Storm Sewer System is to collect storm water separate from the Sanitary Sewer System, assure through best practices the quality of the runoff, and convey it to nearby creeks and rivers. The Storm Sewer Capital Program is primarily funded by Storm Drainage Fees, transfers from the Storm Sewer Operating Fund and interest earnings.

In the Storm Sewer Capital Fund, transfers from the Storm Sewer Operating Fund have totaled \$1,900,000 or 67.3% of the budgeted amount (\$2,825,000). The full amount is expected to be transferred by year-end. Through December, interest earnings are tracking below projected levels at \$49,000, which represents 24.5% of the budgeted amount (\$200,000). If the overall revenue collected does fall below the budgeted estimate by year-end, there is sufficient ending fund balance to cover any shortfall in this fund.

In the Storm Drainage Fee Fund, Storm Drainage Fees generate the majority of revenues for this fund. Through December, these collections totaled \$159,000, which is 52.3% of the estimated revenues (\$304,000). Overall, revenues in this fund are tracking to end the year slightly below the budgeted level. It is expected that revenue will decline slightly during the next six months as a result of slower than projected activities. If the overall revenue collected does fall below the budgeted estimate by year-end, there is sufficient Ending Fund Balance to cover any shortfall in this fund.

An increase to the appropriation for Public Works Capital Management Costs by \$80,000 is recommended in this report. This allocation, which funds the fair share of Public Works Department administrative and management costs necessary to ensure the delivery of capital projects, needs to be increased due to higher than anticipated project-related expenditures in the fund.

Expenditures in both of these funds are tracking as expected and should end the year within the budgeted allocation.

TRAFFIC

Financial Status

The Traffic Capital Program's mission is to implement a safe, efficient, and environmentally sensitive surface transportation system. The Traffic Capital Program is funded primarily by Building and Structure Construction Taxes and Construction Excise Taxes. Revenues in both categories are tracking above estimated levels at mid-year and current collection rates are projected to meet their budgeted estimates by year-end. With the continued slowdown of the local real estate market, however, these revenues will need to be watched carefully. Adjustments will be recommended at year-end, if necessary.

Building and Structure Construction Tax Fund

Building and Structure Construction Tax receipts through December totaled \$5.8 million (56.9% of the current 2007-2008 estimate

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TRAFFIC (CONT'D.)

Building and Structure Construction Tax Fund
(Cont'd.)

of \$10.2 million). This represents a slight increase (2.1%) from last year's year-to-date receipts of \$5.7 million. The budgeted estimate for this category allows for a 4.3% drop in 2007-2008 compared to actual 2006-2007 performance. Current projections indicate that revenues will meet the budgeted estimate by year-end. Staff will continue to monitor these revenues closely and report current status in future Monthly Financial Reports.

Revenue from grants and reimbursements are generally tracking within estimated levels. However, there is an adjustment being recommended in this report. An increase of \$1,750,000 in the revenue estimate is recommended to establish the Route 101: Blossom Hill Interchange Improvements project. Funding has been received from the Hitachi Developer for the planned improvements to the Route 101 and Blossom Hill Interchange.

On the expenditure side, there are a number of adjustments recommended in this report. Increases to the following projects: \$650,000 to the Seismic Bridge Retrofit – Julian Street, \$330,000 to the Seismic Bridge Retrofit – William Street, and \$83,000 to the Seismic Bridge Retrofit – Southwest Street are recommended to provide funding for construction and project management costs. These expenditures are anticipated to be reimbursed by federal and State grant funding

upon completion of the projects. Also, an increase of \$70,000 to the ITS: Stevens Creek – West project is recommended to support the additional staff time necessary to complete re-scoping of the project, additional design review, and to rebid the construction contract. In addition, an increase of \$12,000 to the Oakland Road: Route 101 to Montague project is recommended to support increased project costs associated with land acquisition. Lastly, a decrease of \$380,000 is recommended to the Refund to Developers appropriation because the payment owed to the developer was paid last fiscal year. The appropriation was inadvertently rebudgeted as part of the 2006-2007 Annual Report and this adjustment corrects it. To offset all the actions recommended in this document, a decrease of \$765,000 to Ending Fund Balance is recommended.

Construction Excise Tax Fund

Tax receipts through December for the Construction Excise Tax Fund totaled \$8.7 million, which represents an 11.4% increase over last year's \$7.84 million received over the same period. Collections for the first six months of the year total 59.1% of the 2007-2008 estimate of \$14.8 million. The budgeted estimate for this category requires only a 2.0% increase in 2007-2008 compared to actual 2006-2007 performance. At this point, therefore, Construction Excise Tax receipts are expected to meet budgeted estimates by year-end. It should be noted, however, that reflecting the housing slowdown, the residential portion of this tax is down significantly (69%) compared to December 2006. While this decrease has been offset by a substantial increase of taxes

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TRAFFIC (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

associated with the commercial sector compared to December 2006, we remain cautious over the long-term impact on these tax collections should a prolonged residential slowdown continue. Staff will continue to monitor these revenues closely, and report current status in future Monthly Financial Reports. Other revenues from grants and reimbursements are generally tracking within estimated levels.

There are a number of actions recommended in this report to adjust revenues and expenditures based on current activity and project needs. Some projects in the Traffic Capital Program are on a reimbursement basis. Either federal, State, or local agencies reimburse the City as the costs in projects occur. If there are no costs being incurred, the amount of reimbursement decreases. As a result of this, a decrease of \$190,000 in revenue as well as a decrease to the BART Project Management project appropriation is recommended reflecting savings resulting from staff vacancies supporting the BART project. In addition, decreases to the Ortho Photo Project (\$156,000) and its corresponding revenue are recommended due to the Santa Clara County's decision to not exercise the option for expanded work scope. In contrast, an increase of \$35,000 is recommended to the Traffic Safety Improvements project and the corresponding revenue to recognize funding received from Walton San José Investors, LLC for the sidewalk modification design and construction

of the taxi stand bay in front of the Marriott Hotel.

An increase of \$352,000 is recommended to the Public Works Management Costs appropriation in this fund to support higher than anticipated administrative and management costs based on projected capital project expenditures. Lastly, a decrease of \$662,000 is recommended to the Refund to Developers appropriation because the payment owed to the developer was paid last fiscal year. The appropriation was inadvertently rebudgeted as part of the 2006-2007 Annual Report and this adjustment corrects it. An increase of \$310,000 to ending fund balance is recommended to offset all the actions recommended in this document.

Other Funds

The Traffic Capital Program is also supported in small part by the Major Collectors and Arterials Fund. This fund allocates developer contributions for specific purposes related to major collectors and arterials, including signal retiming necessitated by increased congestion caused by development. Revenues received through December totaled \$384,000 or 153.6% of the 2007-2008 budgeted estimate of \$250,000. This revenue source is traditionally very unpredictable since it is based on developers' decisions.

The Traffic Capital Program also receives significant funding from the General Fund. Activity in this portion of the Traffic Program is tracking within expected ranges.

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TRAFFIC (CONT'D.)

Other Funds (Cont'd.)

In overall terms, expenditures in all four funds included in the Traffic Capital Program are tracking within generally expected levels. Although a small number of projects have schedule extensions, most construction projects that are programmed to award contracts in the current year are anticipated to do so before the end of 2007-2008.

WATER POLLUTION CONTROL

Financial Status

The San José/Santa Clara Water Pollution Control Plant is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. The Water Pollution Control Capital Program is funded primarily through contributions from Tributary Agencies, interest, transfers from Sewer Service & Use Charge Fund and Sewage Treatment Plant Connection Fee Fund, Silver Creek pipeline contributions from the Santa Clara Valley Water District, grant revenues from the United States Bureau of Reclamation (USBR), and Proposition 13 funding from the State Water Resources Control Board.

Revenues from Tributary Agencies are tracking close to year-to-date estimates. While collections through the first six months of the year totaled only \$4.6 million, or 30% of the

budgeted amount (\$15.4 million), it is still expected that the budgeted amount will be received by year-end. A total of \$235,000 or 60% of the Calpine Metcalf Repayment has also been received.

Through December, interest revenues totaled only \$1,378,000 or 23.7% of the budgeted amount (\$5.8 million) and will end the year below the adopted estimate. Transfers from the Sewer Service & Use Charge Fund and the Sewage Treatment Plant Connection Fee Fund on the other hand are occurring as scheduled and are expected to reach the budgeted amount for 2007-2008 (\$27.8 million). If the overall revenue collected does fall below the budgeted estimate by year-end, there is sufficient Ending Fund Balance to cover any shortfall in this fund.

For capital projects, the \$10.1 million appropriated to the Fuel Cell Cogeneration System is recommended to be partially reallocated to other higher priority projects with the remaining funds returning to fund balance. This project is being eliminated from the current year. The contractor refrained from executing the contract after disagreement with the City regarding future upgrades that would have committed the City to a long-term upgrade agreement with the contractor. A different approach to this project is under review and planning for this project along with other high priority projects will be included in the 2009-2013 Proposed Capital Improvement Program. Funding of \$4.0 million is recommended to augment the Alternative Disinfection project to address design changes and upgrades, as well as compensate for delay of construction. For the M5, Ring Buss and Cable Replacement project,

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**WATER POLLUTION CONTROL
(CONT'D.)**

Financial Status (Cont'd.)

an additional \$1.8 million is recommended to address higher than anticipated construction costs. The Dissolved Air Floatation Pressure Retention Tanks and Valve project originally planned for 2010-2011, is recommended to be accelerated (\$650,000) to this fiscal year. This action will address the increased deterioration of these tanks over what was previously estimated. It would be more beneficial to commence the replacement of the tanks now rather than wait any longer. A \$2.6 million adjustment to the WPCP Reliability Improvement project is necessary to address an accounting error in which this amount was mistakenly liquidated and redistributed to fund projects in the previous year. This adjustment will allow the City to fulfill its contractual commitment and to pay the contractor on time. Sufficient Ending Fund Balance exists to offset this adjustment.

Expenditures in this program are tracking as estimated and are expected to end the year within the budgeted allocations.

WATER UTILITY SYSTEM

The San José Municipal Water System provides water utility service, in accordance with State of California Department of Health Services requirements, to areas approved for development by the City Council and within the City's water service area. The Water Utility

System Capital Program is funded primarily through fees paid by developers for direct services, interest, and transfers from the Water Utility Fund.

Through December, fee collections in the Water Utility System Capital Fund totaled only \$32,000, or 3.7% of the budgeted amount for 2007-2008 (\$865,000). This fee revenue is tracking far below expected levels due to much lower than anticipated activity. Service Connection and Advanced System Design fees are reimbursements for actual expenditures. Expenditure savings in these categories will offset the overall fee revenue shortfall. The budgeting of these expenditures and corresponding revenue are made to ensure that as development activity occurs, sufficient allocations exists to keep projects moving forward. Staff will continue to monitor these revenues and reevaluate the assumptions that will be used to develop 2009-2013 Proposed Capital Improvement Program. Revised revenue levels will balance the expected activity given the real estate downturn while ensuring sufficient expenditure budgets are available if development activity increases. Additionally, interest earnings totaled \$103,000 through December, or 67% of the annual budget estimate of \$153,000. Interest earnings are expected to exceed the budgeted amount due to higher than anticipated cash levels. Overall, higher than expected interest collections and expenditure savings mentioned above should offset the shortfall in fee revenues. Transfers from the Water Utility Fund are occurring as scheduled.

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**WATER UTILITY SYSTEM
(CONT'D.)**

Financial Status (Cont'd.)

The Major Facilities Fee Fund receives revenue from a connection fee charged to developers and, according to State law, the revenue, as well as interest income, may be used only for the construction of new facilities to service future developments. Due to increased development activities in the first half of the year in areas covered by Vision North San José, fee collections totaled \$113,000, or 75.3% of the

budgeted amount for 2007-2008 (\$150,000). The revenue collected is set aside in a reserve for projects necessitated by system growth.

Interest earnings totaled \$58,000 or 33.7% of the budgeted amount (\$172,000). If the overall revenue collected does fall below the budgeted estimate by year-end, there is sufficient ending fund balance to cover any shortfall in this fund.

Expenditures in this program are tracking as estimated and are expected to end the year within the budgeted allocations.